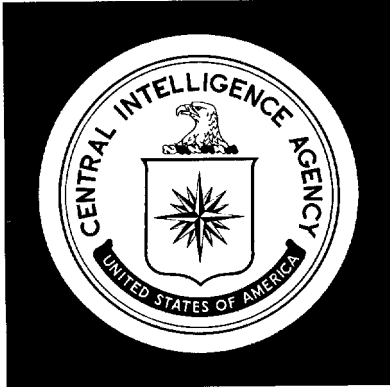


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Israeli Retaliation



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ISRAEL-LEBANON: The two-pronged attack into southern Lebanon yesterday, in retaliation for the death of two Israeli civilians and an Israeli army officer, was one of Israel's biggest punitive operations against any Arab country since the 1967 war.

A mechanized battalion, augmented by close air support, seized and searched three towns in central southern Lebanon. A number of houses were destroyed and some prisoners taken before the force withdrew. At the same time, the Israelis hit fedayeen bases on the slopes of Mount Hermon with artillery and an estimated 40-50 aircraft. Fedayeen losses are believed to be high, and the Lebanese Army lost at least one soldier even though it did not directly engage the Israelis. The Israelis suffered no casualties.

Lebanese officials are dismayed by the magnitude of the raids in the face of what they describe as their strenuous efforts to control fedayeen actions. They say they are unable to prevent the fedayeen from infiltrating Israeli territory. The Israelis publicly claim, with substantial accuracy, that there is an agreement between Beirut and fedayeen leaders that there will be no firing into Israel from Lebanese territory and that, in return, the Lebanese will grant the fedayeen bases in Lebanon from which the fedayeen can infiltrate into Israel. Acting Prime Minister Yigal Allon said over Jerusalem radio that Israel sees absolutely no difference between the two conditions and that it will continue to take direct action if the Lebanese do not control the terrorists.

Beirut has called for a UN Security Council meeting for this morning. With popular pressures building up over the approach of parliamentary elections, this is the least the government can do.

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MALTA-UK: Prime Minister Mintoff will resume negotiations with British Defense Secretary Lord Carrington today prior to meeting with Prime Minister Heath on Monday.

At Mintoff's insistence, the British have given assurances of an open agenda and have agreed reluctantly to an Italian presence at the talks. Sunday is presently scheduled to be a "day off" to allow the negotiators time to consider today's developments. The British will stand by the final UK-NATO offer of \$36.4 million annually, plus bilateral aid, and the allied position on foreign military use of Malta. An agreement still appears possible, however, if both sides show flexibility on bilateral issues, particularly those concerning the terms of local employment.

If the talks succeed, Mintoff will have a settlement that most Maltese will view as an immense achievement. If the negotiations fail, he will be able to claim that he has made an extra effort and then try to shift the blame for failure to London.



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CHILE: Military officers are studying the possible consequences of a complete break with the US as a source of military equipment, possibly as justification to refuse a Soviet arms offer.

Materiel commands of all services reportedly were ordered on 18 February to prepare a detailed study of the ramifications, especially economic, of a total refusal on the part of the US to sell Chile military equipment. The study is to be predicated on the assumption that Chilean acceptance of a reputed Soviet offer of [redacted] arms credits would cause the US to react with an immediate suspension of all military sales to Chile. The time limit for the study is not yet known, but the conclusions are to affect the decision whether to accept the Soviet offer.

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There is still no confirmation that the Soviet arms credits have been raised [redacted] from the [redacted] offer [redacted] made last year. Whatever the final amount, the ultimate decision whether to accept the offer has not yet been made. While the military study will be an important factor, the decision will be determined primarily by political considerations.

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Discussing Chile's surprise decision on 24 February to start overdue payments on its debt to the Kennecott Copper Corporation, a Chilean official reportedly claimed that the decision was at least partly due to fear of attachment of military funds on deposit in the US for the purchase of US spare parts. This consideration is unlikely to have been a major factor in the decision to pay Kennecott. The reference to it, however, is a sign that the government wishes to keep military links with the US open or to shift the blame for a possible future parts shortage to US rather than Chilean actions.

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SPAIN-USSR: Spanish Foreign Ministry officials reportedly are optimistic that agreement will be reached next month on the establishment of trade relations with the Soviets.

The third round of Spanish-Soviet trade talks, scheduled to begin in Paris on 13 March, may also explore consular relations [REDACTED]

[REDACTED] Efforts to negotiate a commercial-consular agreement in March and July of last year foundered on Moscow's wish for a larger number of personnel for its proposed consulate in Madrid than the Spanish were willing to allow.

In keeping with Spain's policy of normalizing relations with all countries, regardless of ideology, cultural and economic contacts have increased in the last year or two. This has occurred in spite of ideological differences and the residual ill will caused by the USSR's role in the Spanish Civil War. Limited rapprochement also accords with Moscow's European detente policy.

While the value of trade with the USSR has more than doubled since 1960 to approximately \$14 million in 1970, it still amounts to only one percent of the total, so that the USSR represents a largely untapped market for Spain's burgeoning exports. One reason for this stagnation has been Soviet recourse to a clearing account arrangement to balance bilateral trade. Spain would prefer that payments be in convertible currencies on a multilateral basis, but it is unlikely that the Soviets, given present pressures on their foreign exchange reserves, would agree to more than token payments in hard currency.

Spanish-Soviet relations are expected to follow the pattern Spain has used in improving relations with Eastern Europe. Hence, the signing of a commercial pact would precede a consular agreement and the exchange of consular representatives. Madrid has yet to undertake formal diplomatic relations with any East European country. [REDACTED]

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ZAIRE: President Mobutu Sese Seko's current campaign to tighten up his government stems more from a need to increase administrative efficiency than from political reasons.

Mobutu announced on 21 February that he had reshuffled his cabinet and the political bureau of the official political party. He replaced six cabinet ministers, shifted three others, and moved several vice-ministers up to ministerial posts. The new cabinet is stronger than its predecessor in technical and administrative expertise and could be a plus for Mobutu at a time of general economic malaise in Zaire.

The reduction in the party political bureau from 35 to 15 members, with seven holdovers, should produce a policy-making body more responsive to Mobutu's drive to forge national unity. Although a number of senior politicians were dropped from the bureau, it now appears to strike a better balance between national and regional interests and to open broader contacts with special groups such as youth and intellectuals.

Mobutu also ordered last week that senior cabinet and party officials, provincial governors, and directors of state enterprises desist from hiring personnel on the basis of family, tribal, and regional connections. He informed the officials concerned that he would review all appointments. On this issue, however, Mobutu is challenging tradition, and he is likely to meet with widespread foot-dragging.



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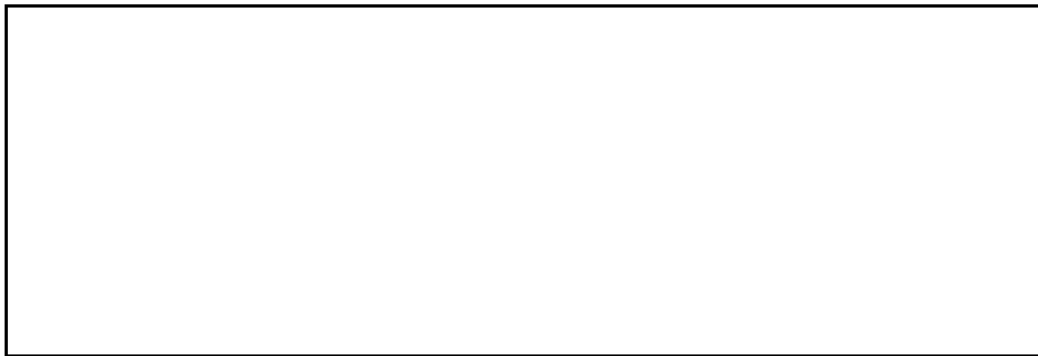
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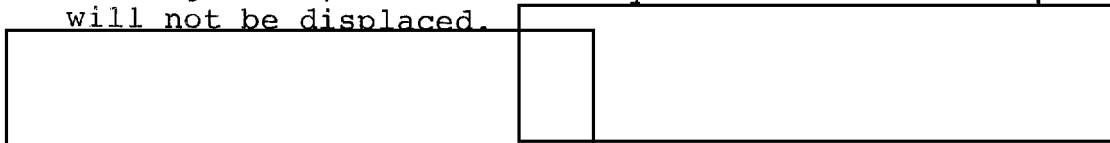
BOLIVIA: The national convention of the Nationalist Revolutionary Movement (MNR) got under way in La Paz yesterday despite demands from dissidents that it be postponed.

It is the full party's first public convention since the overthrow of Victor Paz Estenssoro's government in 1964. After almost seven years of internal feuding in opposition, most of the MNR joined with some old enemies, the armed forces and the Falange, to overthrow President Torres last August. The party has since returned to partial power through participation in President Banzer's coalition government.

The MNR remains Bolivia's only true mass party and the most cohesive political force in the nation after the military. It is still rife with dissension, however, and its precarious unity may be severely strained by the convention. Internal conflicts are ideological, political, generational, and personal.



The key figure remains Victor Paz, still the personification of the party and a past master of political intrigue. Whether he leads the party down his chosen path or merely adapts to the prevailing winds, it seems fairly certain that Paz will not be displaced.



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PAKISTAN: Widespread rumors of an impending currency devaluation have contributed to a ten-percent rise in the price of gold in the last ten days. The rumors stem from the annual visit of an International Monetary Fund (IMF) team to Pakistan. According to press reports, the IMF team has been detailing measures necessary for Islamabad to qualify for a standby credit to strengthen its foreign exchange reserves. The IMF for several years has been urging Pakistan to devalue as a means of easing continuing balance of payments problems and correcting the misallocation of foreign exchange resources caused by the complicated multiple exchange rate system Pakistan uses in foreign trade. The World Bank and the Aid-to-Pakistan Consortium also have urged devaluation. President Bhutto probably realizes that he cannot avoid this step if he hopes to gain needed international aid.

* * *

DAHOMY: The ruling civilian triumvirate headed by President Maga remains in power following an attempted coup on 23 February by dissident army officers. The coup move began with an early morning attack on the army chief of staff, and ended with the negotiated surrender late in the day of rebellious elements based in the army camp in Cotonou. Eight junior officers and noncoms were subsequently arrested, but senior officers who probably masterminded the affair so far have not been touched, apparently because the government fears provoking further military action. Despite the government's success in defeating this threat, competition for power will continue among Dahomey's military and civilian factions.

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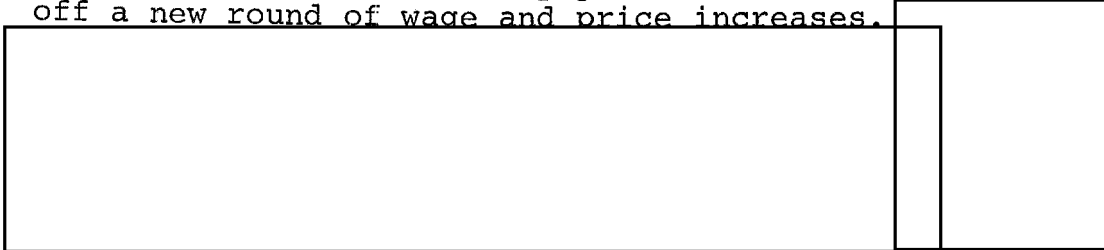
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THE NETHERLANDS: The end of the 17-day-old wildcat strike by socialist metalworkers in Amsterdam and Rotterdam has saved the Biesheuvel government from breaking with its policy of nonintervention, a step that might have disrupted the stability of the coalition cabinet. In an effort to regain control of its restive rank and file, the socialist trade union leadership had threatened to ignore the accepted practice of industry-wide bargaining and to negotiate directly with individual firms if the workers' demands for increased vacation pay were not met. Because the differences in negotiating positions were narrow, the harried union leaders finally agreed to binding arbitration that resulted in a generally favorable settlement that includes an 11.7-percent negotiated wage increase. The settlement represents a blow to the government's battle against inflationary pressures and could set off a new round of wage and price increases.



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